



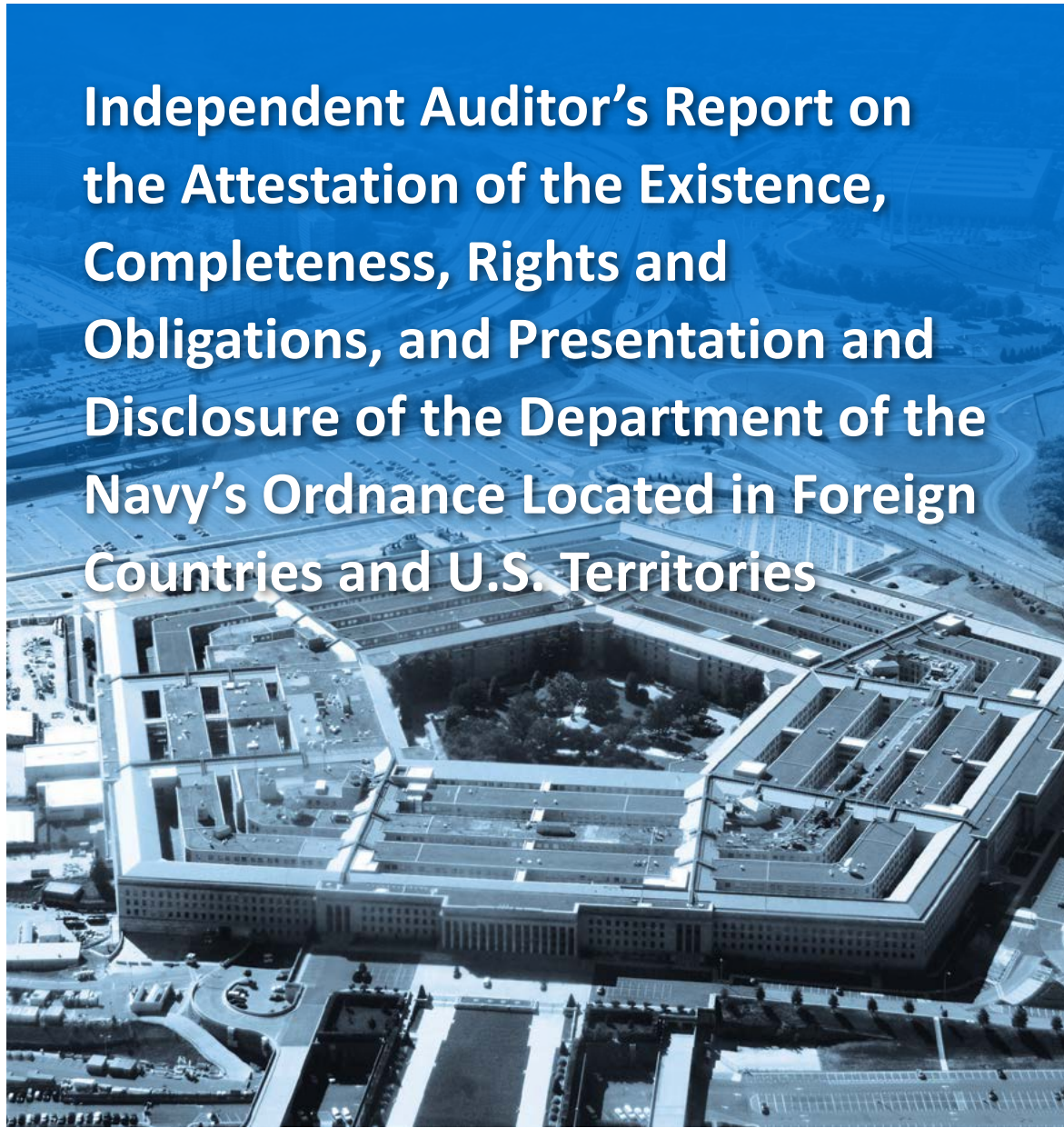
# INSPECTOR GENERAL

*U.S. Department of Defense*

MARCH 6, 2015



## Independent Auditor's Report on the Attestation of the Existence, Completeness, Rights and Obligations, and Presentation and Disclosure of the Department of the Navy's Ordnance Located in Foreign Countries and U.S. Territories



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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## Mission

*Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.*

## Vision

*Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.*



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**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

March 6, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER, DOD  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Attestation of the Existence, Completeness,  
Rights and Obligations, and Presentation and Disclosure of the Department of the  
Navy's Ordnance Located in Foreign Countries and U.S. Territories  
(Report No. DODIG-2015-089)

We are providing this report for your information and use. No written response to this report was required, and none was received; therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting

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DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
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## Audit Opinion

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We have examined management's assertion of audit readiness<sup>1</sup> for the existence, completeness, rights and obligations, and presentation and disclosure of the Department of the Navy's (DON's)<sup>2</sup> ordnance located in foreign countries and U.S. territories as of September 30, 2014. DON asserted audit readiness of the existence, completeness, rights and obligations, and presentation and disclosure of DON ordnance, excluding that in the custody of the Army, on February 28, 2013. This examination is the third in a series of examinations of DON ordnance.<sup>3</sup> DON management is responsible for its assertion of audit readiness. Our responsibility is to express an opinion on the assertion based on our examination.

We conducted this examination in accordance with examination engagement standards established by the American Institute of Certified Public Accountants and with generally accepted government auditing standards. Those standards require examining, on a test basis, evidence supporting DON's assertion of audit readiness of the existence, completeness, rights and obligations, and presentation and disclosure of its mission-critical assets and performing other procedures we considered necessary. We believe our examination provides a reasonable basis for our opinion on management's assertion.

We performed our examination using information obtained from Naval Supply Systems Command–Global Logistics Support Ammunitions, Marine Corps Systems Command, and DON Commands for the existence, completeness, rights and

<sup>1</sup> Audit readiness in accordance with the November 2013 DoD Financial Improvement and Audit Readiness Guidance Wave 3 Mission Critical Asset Existence and Completeness Audit.

<sup>2</sup> DON includes both Navy and U.S. Marine Corps activities.

<sup>3</sup> We issued two prior reports: ordnance categorized as inside the contiguous U.S. (DoD IG Report No. DODIG-2014-047, March 25, 2014) and afloat ordnance (Report No. DODIG-2015-003, October 2, 2014). Therefore, ordnance categorized as inside the contiguous U.S. and afloat in the DON's Ordnance Information System was excluded from this examination.



obligations, and presentation and disclosure of DON ordnance located in foreign countries and U.S. territories as of September 30, 2014. The DON Ordnance Information System (OIS)<sup>4</sup> is the accountable property (computer) system of record for ordnance assets. As of September 30, 2014, the DON ordnance universe located in foreign countries and U.S. territories in OIS consisted of 138,670,045 assets. We tested a nonstatistical sample of 15,830,545 assets for existence, 4,171,512 assets for completeness, and 20,002,057 assets for rights.<sup>5</sup> Examples of ordnance assets tested range from missiles and torpedoes to sonobuoys and small arms ammunition.

During existence testing, we selected assets from a list that included the entire ordnance inventory at DON activities visited and compared the OIS records to the on-hand quantities. A discrepancy was noted if we could not physically verify an asset or if there was a record-keeping error, meaning the asset was physically verified but did not match the OIS record. For existence testing, we reviewed 15,830,545 assets and identified a total of 761 discrepancies. Of the 761 discrepancies, 168 assets could not be physically verified. These assets consisted of empty pallets, shipping container assemblies, or ammunition chests. The command explained that these assets were sometimes reused and reconfigured without properly updating OIS records; therefore, we could not physically verify these assets. The remaining 593 discrepancies were considered record-keeping errors. On-hand quantities for cartridges were greater than OIS quantities at two different sites. As a result, these assets were understated in OIS. DON has procedures to research, identify the status, and correct OIS records. No larger ordnance assets, such as missiles or torpedoes, were missing.

During completeness testing, we selected assets from DON activities and compared the on-hand quantities to the OIS records. We reviewed 4,171,512 assets for completeness and identified 1,500 discrepancies, which were the result of a record-keeping error from a single lot of 7.62-millimeter cartridges. The OIS record for this lot was understated by 1,500 cartridges.

In our opinion, the DON assertion of audit readiness for the existence, completeness, rights and obligations, and presentation and disclosure of its ordnance located in foreign countries and U.S. territories as of September 30, 2014, is stated fairly in accordance with DoD Financial Improvement and Audit Readiness Guidance Wave 3 Mission Critical Asset Existence and Completeness Audit.

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<sup>4</sup> OIS is the system of record for DON's ordnance; however some commands still use the legacy computer system "Retail Ordnance Logistics Management System." When we use the term OIS, it collectively refers to both systems.

<sup>5</sup> We were able to test a large quantity of assets because each piece of ordnance is tracked individually. For example, an individual bullet counts as one asset.

## Internal Controls

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According to Office of Management and Budget Circular A-123, internal controls should assure the safeguarding of assets from waste, loss, unauthorized use, or misappropriation as well as assure compliance with laws and regulations. We did not identify any reportable inventory or internal control deficiencies during the examination.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Assistant Secretary of the Navy (Financial Management and Comptroller) and is not intended to be used and should not be used by anyone else.



Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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4800 Mark Center Drive  
Alexandria, VA 22350-1500  
[www.dodig.mil](http://www.dodig.mil)  
Defense Hotline 1.800.424.9098

